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Ref: **(a)** Marine Advisory: 11/2016
Sanctions Risks Related to North Korea's Shipping Practices

To: **All Owners/Operators/Masters of Liberian Flagged Vessels**

Dear Owners/Operators/Masters:

This Advisory attaches an advisory issued by the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC), with the U.S Department of State and the U.S. Coast Guard, on sanctions risks related to the Democratic People's Republic of Korea (DPRK) use of deceptive shipping practices to evade sanctions.

These practices may create significant sanctions risk for parties involved in the shipping industry, including insurers, flag registries, shipping companies, and financial institutions. Parties subject to U.S. and/or United Nations (UN) sanctions should be aware of these practices in order to implement appropriate controls to ensure compliance with their legal requirements.

The attached provides examples of deceptive shipping practices used by DPRK to obfuscate the identity of the vessels, the goods being shipped, and the origin or destination of cargo, risk mitigation measures, penalties for violations of U.S. and UN sanctions regimes and contact details of agencies available to address questions.

Owners and Operators should bring the contents of this Advisory to the attention of the Masters of their Liberian flagged vessels and instruct them to exercise caution so as to avoid violation of the sanctions.

Point of Contact

For further information regarding the issuance of this Advisory, please contact the Investigations Department at +1 (703) 790 3434 or investigations@liscr.com. If after business hours, please contact the Duty Officer at +1 703 963 6216 or Dutyofficer@liscr.com.

Attachment: U.S. Dept of Treasury -Sanctions Risks Related to North Korea's Shipping Practices

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

North Korea Sanctions Advisory

Issued: **February 23, 2018**

Title: **Sanctions Risks Related to North Korea's Shipping Practices**

The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC), with the U.S. Department of State and the U.S. Coast Guard, is issuing this advisory to alert persons globally to deceptive shipping practices used by North Korea to evade sanctions. These practices may create significant sanctions risk for parties involved in the shipping industry, including insurers, flag registries, shipping companies, and financial institutions. Parties subject to U.S. and/or United Nations (UN) sanctions should be aware of these practices in order to implement appropriate controls to ensure compliance with their legal requirements.

As part of the maximum pressure campaign against North Korea, the United States is committed to disrupting North Korea's illicit funding of its weapons programs, regardless of the location or nationality of those facilitating such funding. The North Korean shipping industry is a primary means by which North Korea evades sanctions to fund its nuclear weapons and ballistic missile programs. As such, the United States will continue targeting persons, wherever located, who facilitate North Korea's illicit shipping practices.

The United States and its international partners have demonstrated resolve to pursue those violating sanctions in the North Korean shipping industry through the adoption of UN port entry bans, the detention of vessels complicit in sanctions evasion, and through national-level sanctions designations. Both the United States and the UN maintain robust sanctions regimes against North Korea. The United States prohibits trade and other transactions directly or indirectly involving North Korea, and the United States can sanction entities and individuals who engage in trade, among many other things, with North Korea. The UN prohibits most exports and imports, with very limited exceptions, and maintains prohibitions related to ship-to-ship transfers, sanctions evasion, and port entry of designated vessels, among other areas.

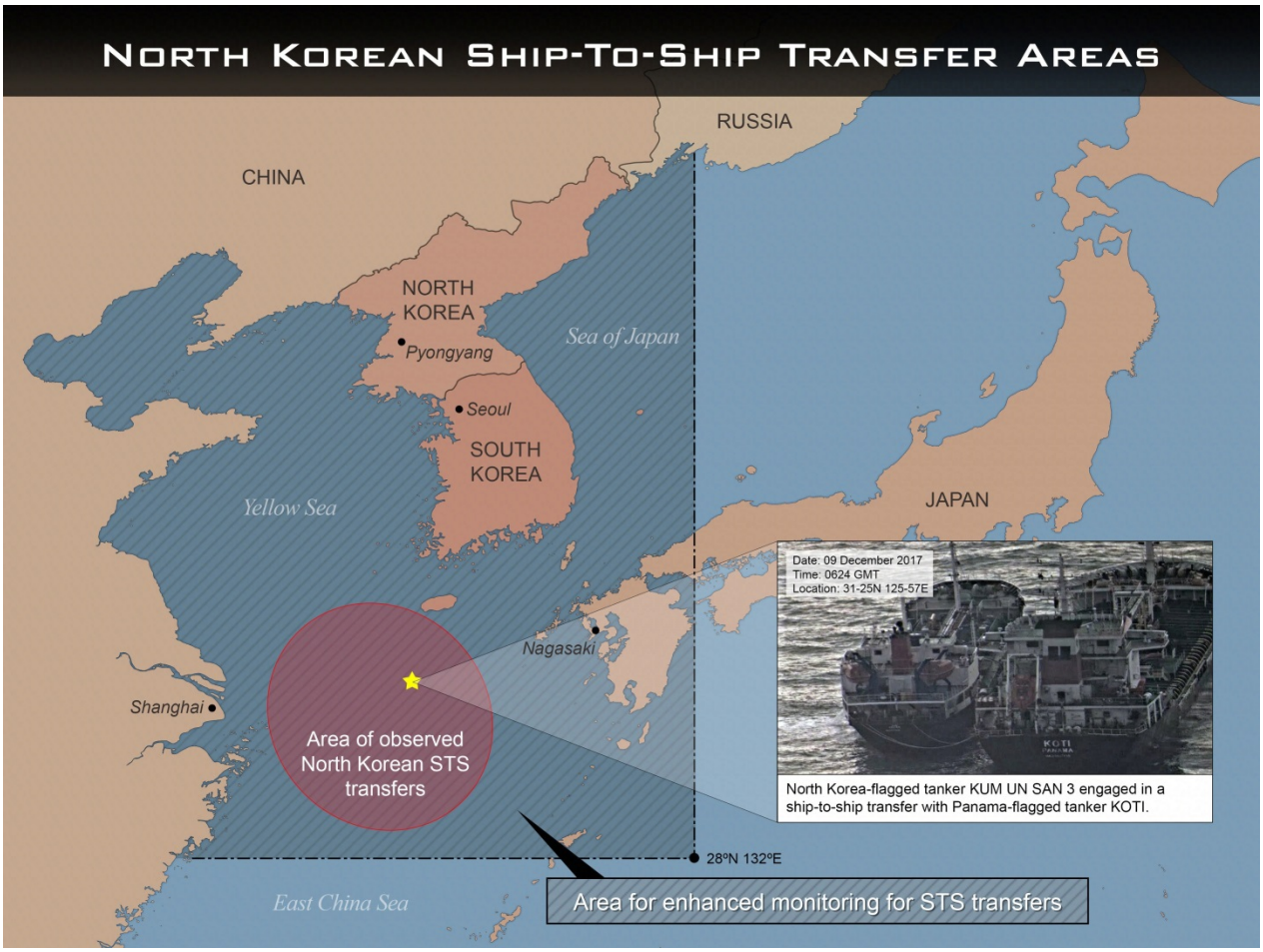
This advisory contains two annexes. The first provides an overview of U.S. and UN sanctions relevant to the shipping industry, including a non-exhaustive list of bases for which persons can be sanctioned by OFAC. The second provides a list of North Korean vessels that are capable of engaging in ship-to-ship transfers.

Deceptive Shipping Practices Employed by North Korea

As the global community increases its pressure, North Korea continues to deploy deceptive practices with respect to shipping to evade sanctions. The following list provides examples of the types of tactics used by North Korea to obfuscate the identity of the vessels, the goods being shipped, and the origin or destination of cargo.

- **Physically Altering Vessel Identification:** Maritime vessels meeting certain tonnage thresholds are required to display their name and International Maritime Organization (IMO) number (a unique, seven-digit identifying vessel identification code) in a visible location either on the ship's hull or superstructure. A vessel's IMO number is intended to be permanent and should remain consistent regardless of a change in a vessel's ownership or name. North Korean-flagged merchant vessels have physically altered their vessels to obscure their identities and attempt to pass themselves off as different vessels. These physical alterations include painting over vessel names and IMO numbers with alternate ones.

- **North Korean Ship-to-Ship (STS) Transfers:** STS transfers are a method of transferring cargo from one ship to another while at sea rather than while located in port. STS transfers can conceal the origin or destination of cargo. North Korea operates a fleet of 24 tankers capable of engaging in STS transfers of refined petroleum products and other banned goods. The names and IMO numbers of these vessels are listed in Annex 2, though they are subject to change as North Korea seeks to conceal the identity of vessels it owns and operates. The following map shows area where ship-to-ship transfers commonly occur:



- **Falsifying Cargo and Vessel Documents:** Complete and accurate shipping documentation is critical to ensuring all parties to a transaction understand the parties, goods, and vessels involved in a given shipment. Bills of lading, certificates of origin, invoices, packing lists, proof of insurance, and lists of last ports of call are examples of documentation that typically accompany a shipping transaction. North Korea has been known to falsify vessel and cargo documents to obscure the origin or destination of cargo.

- **Disabling Automatic Identification System (AIS):** AIS is a collision avoidance system, which transmits, at a minimum, a vessel's identification and select navigational and positional data via very high frequency (VHF) radio waves. While AIS was not specifically designed for vessel tracking, it is often used for this purpose via terrestrial and satellite receivers feeding this information to commercial ship tracking services. Ships meeting certain tonnage thresholds and engaged in international voyages are required to carry and operate AIS; however, North Korean-flagged merchant vessels have been known to intentionally disable their AIS transponders to mask their movements. This tactic, whether employed by North Korean-flagged vessels or other vessels involved in trade with North Korea, could conceal the origin or destination of cargo destined for, or originating in, North Korea.

- **Manipulating AIS:** North Korean-flagged merchant vessels have also been known to manipulate the data being transmitted via AIS. Such manipulation could include altering vessel names, IMO numbers, Maritime Mobile Service Identities (MMSIs), or other unique identifying information. This tactic could also be used to conceal a vessel's next port of call or other information regarding its voyage.

Risk Mitigation Measures

North Korea's deceptive practices are intended to circumvent existing sanctions compliance controls used by the shipping industry and other actors involved in shipping-related transactions (such as insurance companies and financial institutions). The risk of engaging in prohibited activity or processing prohibited transactions can be mitigated by implementing the following types of measures:

- **Monitor for AIS Manipulation:** Ship registries, insurers, charterers, vessel owners, or port state control entities should consider investigating vessels that appear to have turned off their AIS while operating in the area surrounding the Korean peninsula. Any other signs of manipulating AIS transponders should be considered red flags for potential illicit activity and should be investigated fully prior to continuing to provide services to, processing transactions involving, or engaging in other activities with such vessels.

- **Conduct Research Prior to STS Transfers:** Vessels conducting STS transfers in the area surrounding the Korean peninsula should be aware of the potential for North Korean

vessels to use deceptive practices to hide their identities, including by using false vessel names or IMO numbers. Vessel operators should ensure that they have verified the vessel name, IMO number, and flag prior to engaging in such a transfer, and ensure there is a legitimate business purpose for the STS transfer.

- **Review All Applicable Shipping Documentation:** Individuals and entities processing transactions pertaining to shipments potentially involving North Korean-flagged vessels or shipments to or from North Korea should ensure that they request and review complete and accurate shipping documentation. Such shipping documentation should reflect the details of the underlying voyage and reflect the relevant vessel(s), cargo, origin, and destination. Any indication that shipping documentation has been manipulated should be considered a red flag for potential illicit activity and should be investigated fully prior to continuing with the transaction. In addition, documents related to STS transfers should demonstrate that the underlying goods were delivered to the port listed on the shipping documentation.

- **Clear Communication with International Partners:** Not all parties to a shipping transaction may be subject to the same sanctions regimes, so clear communication is a critical step for international transactions. Clearly communicating U.S. and UN sanctions obligations and discussing sanctions compliance obligations with parties to a transaction can ensure more effective compliance with relevant sanctions programs.

- **Leverage Available Resources:** There are several organizations that provide commercial shipping data, such as ship location, ship registry information, and ship flagging information. This data should be incorporated into due diligence practices, along with available information from OFAC, the UN, and the Coast Guard, as outlined below in the "North Korea Sanctions Resources" section of this advisory.

Penalties for Violations of U.S. and UN Sanctions Regimes

Individuals and entities engaged in shipping-related transactions should be aware of the potential consequences for engaging in prohibited or sanctionable conduct.

OFAC investigates apparent violations of its regulations and maintains enforcement authority as outlined in its Economic Sanctions Enforcement Guidelines. Persons that violate U.S. sanctions with respect to North Korea can be subject to civil monetary penalties equal to the greater of twice the value of the underlying transaction or $289,238, per each violation.[1] See hyperlink for additional information regarding OFAC's enforcement authorities, Economic Sanctions Enforcement Guidelines, and recent civil penalties and enforcement actions.

The UN also maintains various enforcement mechanisms for ensuring compliance with its requirements. It may direct a member state and the relevant shipping registry to drop registration

[1] Pursuant to the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015, Sec. 701 of Public Law 114-74 (FCPIA), OFAC adjusted its civil monetary penalty amounts on August 1, 2016 and February 10, 2017, and will adjust those amounts annually.

of a ship designated by the UN for violating sanctions and may also direct that it be denied entry at all ports. Ships suspected to be carrying UN prohibited cargo may be inspected at sea upon the consent of the flag state, or directed by the flag state to proceed to a specific port for inspection. Vessels whose registration cannot be confirmed or who are deregistered by the flag state may be treated as a vessel without nationality and be subject to the laws of the nation conducting the inspection.

North Korea Sanctions Resources

For questions or concerns related to OFAC sanctions regulations and requirements, including to disclose a potential violation of U.S. sanctions regulations, please contact OFAC's Compliance Hotline at 1-800-540-6322 or via OFAC_Feedback@treasury.gov. To submit a request for a specific OFAC license, see https://licensing.ofac.treas.gov/Apply/Introduction.aspx.

IHS Maritime is the manager of the IMO ship numbering scheme. For verification of IMO numbers for individual ships, you can find existing IMO numbers at https://gisis.imo.org/Public/SHIPS/Default.aspx. IHS Maritime can be contacted via email at mailto:ship.imp@ihs.com or at the following address: IHS Maritime, Sentinel House, 163 Brighton Road, Surrey CR5 2YH, United Kingdom.

The U.S. Coast Guard, in coordination with the Department of State, has published a list of vessels that are owned or operated by North Korea or a North Korean person which will be denied entry to all U.S. ports. This list is separate from that maintained by OFAC or described in Annex 2. The link to that list is located here http://www.nvmc.uscg.gov/CAATSA.aspx. For questions regarding the list, please call or e-mail the Coast Guard's Headquarters Foreign & Offshore Vessel Compliance Division, 202-372-1232, portstatecontrol@uscg.mil.

To report potential North Korea-related UN shipping violations, including suspected STS transfers with North Korean-flagged vessels in violation of UN requirements, please email: DPRKcargo@state.gov.

ANNEX 1

Overview of Sanctions Related to the Maritime Industry

Insurers, flag registries, shipping companies, financial institutions, and others involved in shipping-related transactions may be subject to one or more sanctions prohibitions related to North Korea. A high-level overview of these prohibitions follows, but all individuals and entities reviewing this advisory are encouraged to ensure they understand fully all sanctions obligations that pertain to their activities. Please note this section is current as of the date of this advisory – the most up-to-date information can be found at the websites listed in the footnotes below.

The United States prohibits, among other things[2]:

- Any transactions or dealings with the Government of North Korea or the Workers' Party of Korea;
- Direct or indirect exports and imports to or from North Korea of nearly all goods, services, and technology;
- Vessels that have called at a port in North Korea in the previous 180 days, and vessels that have engaged in an STS transfer with such a vessel in the previous 180 days, from calling at a port in the United States; and
- Registering a vessel in North Korea, obtaining authorization for a vessel to fly the North Korea flag, and owning, leasing, operating, and insuring any vessel flagged by North Korea.

The United Nations prohibitions include but are not limited to[3]:

- Owning, leasing, operating, chartering, or providing vessel classification, certification or associated service and insurance or re-insurance, to any DPRK-flagged, owned, controlled, or operated vessel;
- Providing insurance or re-insurance services to vessels Member states have reasonable grounds to believe were involved in activities or the transport of items prohibited by the relevant resolutions;
- Providing bunkering or servicing of North Korean vessels suspected of carrying prohibited items;
- STS transfers to or from North Korean-flagged vessels of any goods or items that are supplied, sold, or transferred to or from North Korea; and

[2] These prohibitions apply to transactions by a U.S. person or within the United States, including those that pass through the U.S. financial system. In addition, this document is explanatory only and does not have the force of law. This document does not supplement or modify the statutory authorities, Executive orders (E.O.s), or regulations. For additional details on OFAC prohibitions related to North Korea, see www.treasury.gov/ofac

[3] All UN Member States have a legal obligation to implement the sanctions measures imposed by UN Security Council resolutions (UNSCRs). North Korea-related UNSCRs can be found at the 1718 Committee website at https://www.un.org/sc/suborg/en/sanctions/1718.

- Port entry of vessels if designated by the United Nations Security Council (UNSC) or if a State has information that provides reasonable grounds believe that vessel is owned, controlled, or operated by persons designated by the UNSC.

While the U.S. government imposes a comprehensive prohibition on the importation of North Korean goods, the UN prohibits the **importation** from North Korea of the following:

- Coal
- Textiles
- Seafood
- Iron and iron ore
- Lead and lead ore
- Copper
- Nickel
- Zinc
- Gold
- Silver
- Titanium ore
- Rare earth metals
- Vanadium ore
- Statues and monuments
- Conventional arms
- Food and agricultural products
- Machinery
- Electrical equipment
- Earth and stone, including magnesia and magnesite
- Wood
- Vessels
- Fishing rights

Similarly, the U.S. government imposes a comprehensive prohibition on the exportation of goods to North Korea, the UN prohibits the **exportation** to North Korea of the following goods:

- Refined petroleum* (beyond 500,000 barrels/year)
- Crude oil* (beyond 4,000,000 barrels/year)
- Aviation fuel (except fuel required for an aircraft to return to North Korea)
- Rocket fuel
- Condensates and natural gas liquids
- Industrial machinery
- All transportation vehicles (including motor vehicles, trucks, trains, ships, aircraft, helicopters)
- Iron, steel, and other metals
- Conventional arms
- Ballistic missiles
- Weapons of mass destruction & components
- Luxury goods

**Any transfers below the annual cap established by the UNSC (a) must be fully reported to the 1718 Committee within 30 days, (b) must not involve any individual or entity associated with the DPRK's nuclear or ballistic missile programs or other UNSC-prohibited activities, and (c) must be exclusively for livelihood purposes of DPRK nationals and unrelated to generating revenue for the DPRK's nuclear or ballistic missile programs or other UNSC-prohibited activities. If any of these three conditions are not met, even transactions below the authorized annual cap are a violation of UNSC resolution 2397.*

Binding and non-binding UNSC measures (to be implemented by UN Member States):

Actions on the high seas:

- Inspect vessels with consent of the flag State, on the high seas, if inspecting State has information that provides reasonable grounds to believe that the vessel carries prohibited cargo **(non-binding**);
- Flag State to cooperate with such inspections (**non-binding**);

Actions within the territorial sea or within ports:

- Seize, inspect, and freeze (impound) any vessel in its ports when there are reasonable grounds to believe that a vessel is transporting prohibited items or was involved in prohibited activities involving North Korea (**binding**);
- Seize, inspect, and freeze (impound) any vessel subject to its jurisdiction in its territorial waters if there are reasonable grounds to believe that the vessel transported prohibited items or was involved in prohibited activities involving North Korea (**non-binding**);
- Inspect cargo going to or from North Korea by sea, air, rail or road (**binding**).

Actions on high seas or in territorial waters/ports:

- Seize and dispose of any items the transport of which is prohibited by the UNSCR that is discovered in inspections (**binding**).

Registration and other flag State responsibilities:

- Immediately deregister a vessel if it refuses to comply with flag State direction to permit inspection on the high seas or to proceed to port for inspection (**binding**);
- Deregister, and cease to provide classification services for, any vessel that State has reasonable grounds to believe was involved in activities, or transported items, prohibited by UNSCRs and to deregister any vessel that is owned, operated or controlled by the DPRK as well as deny registration of vessels deregistered by other member states or flag registries for violation of sanctions (**binding**);
- Immediately deregister any vessel designated by the 1718 Sanctions Committee (**binding**).

Activities That Could Result in Designation:

OFAC designations:

U.S. statutory law requires the U.S. government to impose sanctions on any person determined to knowingly, directly or indirectly:

- Provide significant amounts of fuel or supplies, provide bunkering services, or facilitate a significant transaction or transactions to operate or maintain a vessel or aircraft that is designated under a North Korea-related E.O. or UNSCR, or that is owned or controlled by a person designated under a North Korea-related E.O. or UNSCR; or
- Insure, register, facilitate the registration of, or maintain insurance or registration for, a vessel owned or controlled by the Government of North Korea.

The U.S. government is also aggressively targeting for designation any person, among others, that:

- Facilitates a significant export to or import from North Korea; or
- Engages in the transportation industry of the North Korea economy.

If the Secretary of the Treasury determines that a foreign financial institution has knowingly facilitated a significant export to or import from North Korea, or knowingly facilitated a significant transaction on behalf of a North Korea-related blocked person, that institution may,

among other potential restrictions, lose the ability to maintain a correspondent account in the United States.

UN designations:

The Security Council or the Committee Established pursuant to UNSC Resolution 1718 (the 1718 Committee) can designate for targeted sanctions (asset freeze and travel ban for individuals) any individual or entity engaged in or providing support for, including through other illicit means, DPRK's nuclear-related, other weapons of mass destruction-related and ballistic missile-related programs.

In addition, the 1718 Committee may list maritime vessels for a variety of actions to be taken on them by all UN Member States. The Committee could list a vessel for a global port entry ban for engaging in activities prohibited by North Korea-related UNSCRs or transporting prohibited items from the DPRK, as authorized by paragraph 6 of UNSC resolution 2371 (2017). The Committee, as authorized by paragraph 12 of UNSC resolution 2321 (2016), could also list vessels for (a) deflagging, (b) direction to a designated port for inspection and follow-on actions, (c) a global port entry ban, and/or (d) an asset freeze (impoundment).

Finally, when States confront uncooperative vessels on the high seas about which they have information that provides reasonable grounds to believe that the cargos of such vessels contain items the supply, sale, transfer or export of which are prohibited by relevant UN Security Council resolutions, the 1718 Committee could take a variety of actions against those vessels. If a flag State of the vessel in question neither consents to inspection on the high seas nor directs the vessel to proceed to an appropriate and convenient port for the required inspection, or if the vessel in question refuses to comply with flag State direction to permit inspection on the high seas or to proceed to such a port, then the 1718 Committee shall consider designating the vessel for an asset freeze and other measures authorized in paragraph 12 of UNSC resolution 2321 (2016). Further, when the Committee makes the designation, the relevant flag State must immediately deregister that vessel. Any State that does not receive the cooperation of a flag State of a vessel suspected of carrying illicit cargo on the high seas must promptly submit a report to the 1718 Committee containing relevant details regarding the incident, the vessel and the flag State, which the Committee will publish on its website on a regular basis.

ANNEX 2

North Korean Vessels Capable of Engaging in Ship-to-Ship Transfers of Petroleum

Ship Name	IMO
SAM JONG 2	7408873
NAM SAN 8	8122347
SAM JONG 1	8405311
CHON MA SAN	8660313
CHON MYONG 1	8712362
KUM UN SAN	8720436
KUM UN SAN 3	8705539
PAEK MA	9066978
RYE SONG GANG 1	7389704
MU BONG1	8610461
SAM MA 2	8106496
YU JONG 2	8604917
YU PHYONG 5	8605026
YU SON	8691702
JI SONG 6	8898740
SAEBYOL/CHONG RIM 2	8916293
AN SAN 1	7303803
CHONG RIM 3	8665131
KU BONG RYONG	8983404
UN PHA 2	8966535
PO CHON	8848276
SONG WON	8613360
KANG DONG	8977900
TONG HUNG 5	8151415